DOCUMENT RESUME

ED 428 454 EA 029 720

TITLE	Transportation of Preschool Children with Disabilities. State Education Department Report 97-S-52.
INSTITUTION	New York State Office of the Comptroller, Albany.
PUB DATE	1999-02-26
NOTE	32p.
PUB TYPE	Reports - Research (143)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	Agency Cooperation; Counties; *Disabilities; Disability Discrimination; *Educational Equity (Finance); Financial Audits; Preschool Children; *Preschool Education; Resource Allocation; *Student Transportation

ABSTRACT

This audit report focuses on transportation costs and practices incurred by the Preschool Handicapped Education Program for counties outside of New York City from July 1, 1994 through March 31, 1998, and addresses the level of cooperation between counties and the State Education Department. The report also includes recommendations for improvement of county transportation programs. Following an introduction that describes the background, objective, methodology, and scope of the audit, a section on county practices and department oversight discusses contracting practices, operating practices, and suggested practices for counties. A section on state aid and related issues examines rate-setting responsibilities, administrative costs, and the reporting system. Also contains a table of "Costs For Center-Based Facilities" (September 1994-June 1995) for 58 counties, major contributors to the report, and comments by Department officials. (RIB)

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State of New York
Office of the State Comptroller
Division of Management Audit and State Financial Services

EDUCATION DEPARTMENT

EDUCATION OF PRESCHOOL CHILDREN WITH DISABILITIES

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State of New York
Office of the State Comptroller

Division of Management Audit and State Financial Services

Report 97-S-52

Mr. Carl T. Hayden
Chancellor of the Board of Regents
The University of the State of New York
State Education Building
Albany, NY 12234

Dear Chancellor Hayden:

The following is our report on the economy and efficiency of transportation services for preschool students with disabilities.

This audit was done according to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law. We list major contributors to the report in Appendix A.

Office of the State Comptroller
Division of Management Audit
and State Financial Services

February 26, 1999

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Executive Summary

State Education Department Transportation of Preschool Children with Disabilities

Scope of Audit

The Preschool Handicapped Education Program (program) was established to provide special education services to three and four-year-old children with disabilities. Each school district is responsible for evaluating and placing preschool children with disabilities. However, officials of the child's county of residence are responsible for contracting with approved preschool program providers selected by the local board of education. County officials are also responsible for providing, directly or by contract with the lowest responsible bidder, for each child's transportation.

The State Education Department (Department) is responsible for administering the program. In school year 1994-95, program expenditures were nearly $595 million, of which more than $126 million (or 21.2 percent) was for transportation. The State, through the Department, is required to reimburse 59.5 percent of preschool handicapped transportation costs. Program costs and participation have increased significantly in recent years. Program costs increased 52.9 percent from school year 1991-92 to school year 1994-95. During the same period transportation costs increased 92.5 percent. Program participation increased 62 percent from school year 1991-92 (31,626 children) to school year 1994-95 (51,237 children).

Our audit focused on program transportation costs and practices for counties outside of New York City and covered the period July 1, 1994 through March 31, 1998. During our audit we visited and reviewed practices at five counties. Our audit addressed the following question relating to the transportation of preschool children with disabilities:

- How can the Department and the counties, working together, transport preschool children with disabilities in the most economical and efficient manner?

Audit Observations and Conclusions

We found that counties operate their preschool handicapped transportation programs autonomously with little coordination with other counties or the Department. As a result, transportation costs and practices vary significantly among counties, and some counties may not be operating their programs as cost effectively as possible. We found that for the September 1994 through June 1995 regular school session, transportation costs per child for center-based facilities ranged from $859 in Seneca County to

$6,349 in Franklin County. The Department needs to assist the counties in improving their practices.

Department officials neither assess the efficiency of county transportation practices nor advise counties on transportation matters. We believe that such Department oversight is important because the present reimbursement system has neither incentives for counties to economize nor penalties for failure to do so. Considering the wide differences in transportation costs among counties and the fact that the Department does not monitor county practices for transporting preschool students with disabilities, we believe it is likely that opportunities exist for increased efficiencies and significant savings in this area. (See pp. 4-7)

Counties should maximize competition when seeking bids for transportation services in order to receive the lowest available price. However, many counties indicated their contracts have options to extend for additional terms (years), thereby delaying the opportunity to rebid the contract and promote competition. In addition, contract specifications that contain restrictive provisions, such as requiring that only new buses be used, tend to impede competition and can result in higher costs. In addition to competition, we identified other factors that counties can control that impact costs. (See pp. 7-15)

We found that, in addition to the reimbursement of direct transportation costs, the Education Law provides for annual reimbursement in the amount of $50 per preschool child served for administrative costs incurred by the county. However, the Law does not explain and the Department has not clarified what is considered a transportation cost and what is considered an administrative cost. Several counties, including Nassau, Oneida, Orange, Suffolk and Rockland, hire transportation management consultants to oversee their transportation programs. We found that Nassau and Suffolk include management consultant costs as transportation costs on their claims for 59.5 percent reimbursement from the Department. However, when we reviewed the types of services consultants were contracted to provide, those services seemed generally administrative in nature. (See pp. 17-18)

Our report includes suggested practices to counties for making their transportation programs more economical and efficient. Our report contains detailed recommendations for ways the Department can play a more active role in helping counties to improve their transportation programs. (See pp. 15, 16 and 20)

Comments of Department Officials

Department officials agree with our recommendations.

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Exhibit A

Costs For Center-Based Facilities Regular School Session (September 1994-June 1995) as of April 7, 1998

Appendix A

Major Contributors to This Report

Appendix B

Comments of Department Officials

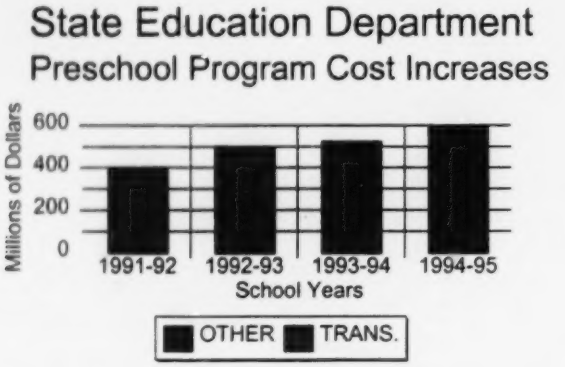
Introduction

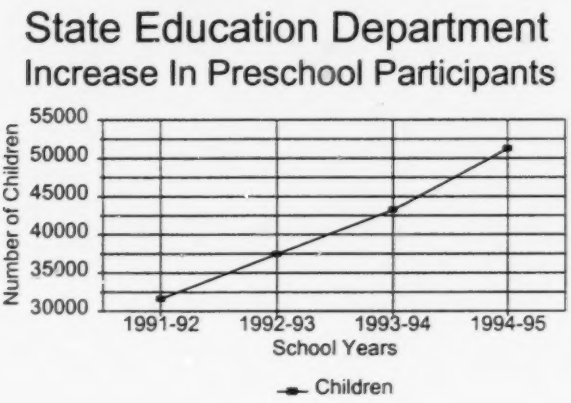
Background

The Preschool Handicapped Education Program (program) was established to provide special education services to three and four-year-old children with disabilities. Effective July 1, 1989, legislation transferred responsibility for this program from the Family Court system to the school districts. Each school district is responsible for evaluating and placing preschool children with disabilities. However, officials of the child's county of residence are responsible for contracting with approved preschool program providers selected by the local board of education. County officials are also responsible for providing, directly or by contract to the lowest responsible bidder, for each child's transportation. Such transportation must be provided once daily from the child care location to the special service or program and once daily from the special service or program to the child care location, up to 50 miles from the child care location.

The State Education Department (Department) is responsible for administering the program. For the school year ended June 30, 1995 (the most recent year for which complete data was available) program expenditures were nearly $594 million, of which more than $125 million (or 21 percent) was for transportation. The State, through the Department, is required to reimburse 59.5 percent of preschool handicapped transportation costs.

The following graphs show program costs and participation have increased significantly in recent years. Program costs increased 52.7 percent, $389 million to $593.9 million, from school year 1991-92 to school year 1994-95. During the same period transportation costs increased 91.5 percent, from $65.5 million to $125.4 million. Because of the length of time between when costs are incurred and complete claims are submitted to SED, school year 1994-95 was the latest year for which complete cost data was available at the time of our audit. Program participation increased 62 percent from school year 1991-92 (31,626 children) to school year 1994-95 (51,237 children).





New York City's transportation of preschool children with disabilities was reviewed by the Office of the Comptroller for the City of New York in November 1994. The New York City Comptroller estimated that the City could save between $42 million and $140 million in five years by competitively bidding transportation contracts for children with disabilities.

Audit Scope, Objective and Methodology

This is an economy and efficiency audit of the transportation of preschool children with disabilities. We concentrated on practices at counties outside of New York City for the period July 1, 1994 through March 31, 1998. The overall objective of our audit was to determine how the Department and the counties, working together, can transport preschool children with disabilities in the most economical and efficient manner. We sent a questionnaire to the State's 57 counties outside of New York City to evaluate county transportation contracting procedures. We also sent one to New York City to become familiar with their transportation practices.

In addition, we visited a cross section of counties with low (Onondaga), medium (Schenectady and Suffolk) and high (Nassau and Putnam) per child transportation costs. At the five counties we also assessed the accuracy of claims submitted to the Department. In addition, we analyzed Department data related to the transportation program and reviewed relevant laws.

We did our audit according to generally accepted government auditing standards. Such standards require that we plan and do our audit to adequately assess Department operations that were within our audit scope. Further, these standards require that we understand the Department's internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations included within our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to audit. This approach focuses our audit efforts on those operations identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use our finite audit resources to identify where and how to make improvements. Thus, we devote little audit effort to reviewing operations that may be efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not focus on activities that may be functioning properly.

Response of Department Officials

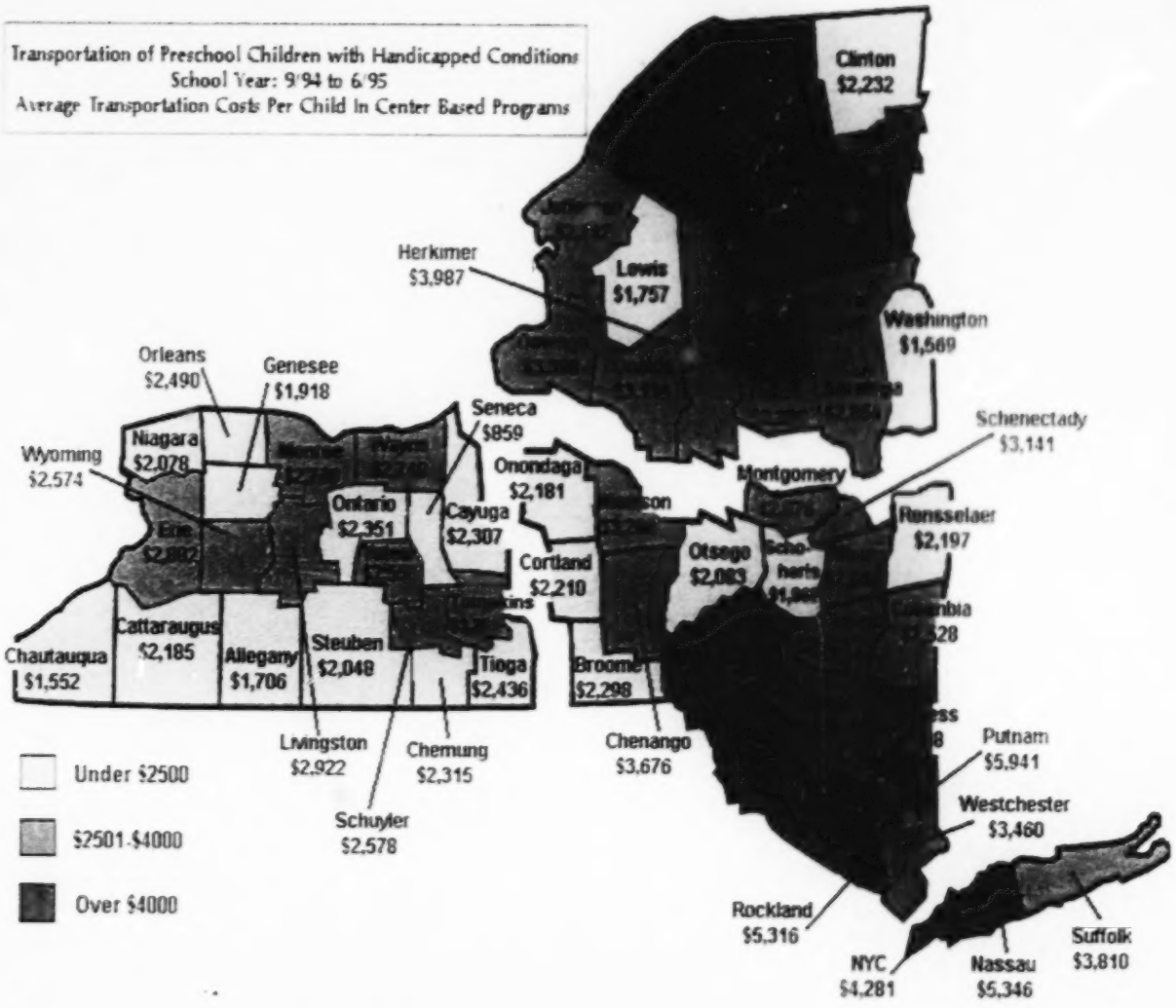
A draft copy of this report was provided to Department officials for their review and comment. We also provided a draft copy of this report to officials of each county that we visited. We advised the officials to provide any comments to the Department for further consideration. Department comments have been considered in the preparation of this report and are included as Appendix B.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the State Education Department shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

County Practices and Department Oversight

To provide the most cost effective transportation services for the program, counties are responsible for following contracting practices that promote competition and implementing operating practices that ensure efficient and safe services. The Department, through its oversight authority, can help the counties attain these objectives by providing appropriate guidance, by monitoring costs and operating practices and by promoting best practices. We found that the Department has not played an active oversight role to help the counties to provide cost effective transportation services for the program. As a result, counties contract for and operate their transportation services autonomously with little coordination with each other or the Department. In addition, wide variations in contracting and operating practices as well as transportation costs exist. For example, for the September 1994 through June 1995 regular school session, transportation costs per child for center-based facilities ranged from $859 in Seneca County to $6,349 in Franklin County as shown in the map on the following page and as presented in Exhibit A.

In the absence of Department guidance and monitoring, it is difficult to determine whether and to what extent the variations in costs and practices are justified or represent inefficiency and the potential for cost savings. We recognize that prevailing wages, the availability of transportation contractors, population density, the number and the location of program providers and participants, and the severity of the disabilities of program participants impact on contracting and operating practices for transportation services and are not controllable. However, there are also controllable contracting and operating practices which, when properly managed, can ensure cost effective county transportation services. Department guidance and monitoring to the counties with respect to these practices would be most beneficial. Moreover, as shown in the following chart, a number of counties indicated to us, in their responses to our questionnaire, their interest in obtaining Department guidance on specific program transportation related issues.



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Issues	Number of Counties
State aid reimbursement procedures	21
Status of aid claims	18
Contracting and bidding procedures	23
Safety criteria	26
Scheduling methodologies	18
Ways to improve economy and efficiency	41
Best practices from other counties	46

Department officials acknowledge their responsibility to administer the program, but they disagree with us regarding what this entails. Department officials maintain that they do not have the legal mandate to monitor and oversee county practices pertaining to transporting preschool students with disabilities. In addition, Department management indicates that they have limited resources and would need more staff to carry out any assignment of these responsibilities to the Department.

We believe, however, that proper program administration must include oversight. Also, the Commissioner of Education is responsible for enforcing all general and specific laws pertaining to the State's education system. In addition, the Department already has a system in place to gather program information, such as approved providers, numbers of children served, budgeted costs, and transportation expenditures, which is pertinent to the oversight of preschool transportation. Finally, monitoring transportation costs can be particulary useful for detecting erroneous County claims for reimbursement. For example, we noted in our audit report (Report 97-S-69) that Putnam County's claimed transportation costs ($4,532,457) for the program and the closely related Early Intervention Program were overstated by a total of $1,386,634 resulting in an overpayment of State aid in the amount of $774,079 for the preschool program for the four-year period ended June 30, 1996. We performed the Putnam County audit and identified the overpayment because we observed that Putnam County's claimed transportation costs per child were the highest in the State.

The following paragraphs detail our observations about county contracting and operating practices and suggest the steps that the Department should take to help ensure that county practices are as cost effective as possible. The information presented is based upon the responses we received to our questionnaire from 54 counties outside of New York City as well as our observations at selected counties.

Contracting Practices

Obtaining a sufficient number of bidders, requiring rebidding within a reasonable period of time and avoiding overly restrictive specifications, tend to promote competition and, therefore, can result in lower contract costs. We believe the Department, in conjunction with the counties, should provide guidance which defines specifically what constitutes best or ideal practices in each of these categories. For example, the guidance provided should specify what is a sufficient number of bidders, how often should contracts be rebid and what are overly restrictive specifications for transportation service contracts for the program. In addition, the Department should clarify that local preference laws not only limit competition, but may be violative of the State's General Municipal Law. Once guidance is provided, the Department needs to gather data to permit effective monitoring and promotion of best practices.

Obtaining Bidders

Generally, obtaining as many bidders as possible promotes competition. Our analysis of county responses to our questionnaire shows that the number of bidders for transportation contracts varied significantly among counties as the following chart shows. (One county did not provide a response, one county did not contract for services and the responding counties provided a range for the number of bidders instead of a specific number of bidders.)

Number of Bidders (Range)	Total Counties
1-3	6
2-5	9
3-5	16
4-5	4
5 or more	17

Duration of Contracts

The duration of a contract should not preclude competition for a prolonged period, yet it must be sufficient to allow contractors sufficient time to recover their investments. The duration of contracts varied significantly among the counties as shown in the chart on the following page. (One county gave two answers and one county did not contract for services.)

We also noted that many counties establish a contract with a stated duration, but provide contract clauses with options to extend the duration for additional years. Some of these clauses can extend a contract up to five years. For example, Nassau County contracted in 1992 with transportation providers for five years plus up to five one-year extensions. The length of this contract could impair efforts to obtain the best price since it can preclude other transportation providers from competing for the contract for up to ten years. We also noted that the term of Suffolk County's 1993 contract for transportation services was three years with two extensions of one year each. When the initial three years expired, County officials offered to continue the contract with the incumbent transportation providers if they agreed to provide service to the County at a 10 percent discount. After some negotiation, each of the transporters offered the County a two percent discount from the next fiscal year's bill of more than $15 million. The County accepted this offer. County officials stated that there were several companies eligible to bid, including some that were new to the area. Under these conditions, we believe the County may have been able to obtain lower prices by rebidding the contract rather than relying on extensions of the existing contract.

Practice	Number of Counties	Transportation Costs	Percent of Total Transportation Costs
Two times per year	4	$ 1,726,635	3.0%
Annually	26	$15,494,915	26.6%
Every two years	7	$ 2,328,840	4.0%
Every three years	7	$17,082,678	29.4%
Every four years	1	$ 3,662,662	6.3%
Every five years	4	$11,518,603	19.8%
Within five years	1	$ 2,722,005	4.7%
Varied frequency	3	$ 3,393,231	5.8%
No contract	1	$ 208,315	0.4%
Total	55	$58,137,884	100.0%

Contract Specifications

Properly drafted contract specifications are a key component to obtaining effective competition and producing a contract satisfactory to both parties. Contract specifications that are overly restrictive may result in unnecessary additional costs. In addition, such specifications may discourage certain transportation providers from competing which, in turn, further tends to increase contract costs. We identified such clauses in Nassau County and Suffolk County transportation contracts.

For example, Nassau County requires that drivers and matrons wear uniforms and that all buses have air conditioning. Further, Nassau County continues to require transporters to comply with a detailed list of potentially costly vehicle specifications. We contacted an official at the New York State Department of Transportation to determine how many of these specifications were required by State or Federal law. The official indicated that of the 31 specifications we discussed, 16 were not specifically required by law. Each of these restrictive specifications adds to the cost of providing transportation.

Both Nassau County and Suffolk County contracts set limits on the age of buses (e.g., no more than five years old). In addition, Nassau County specifies the use of only one size bus for non-wheelchair vans and only one size bus for wheelchair vans. Setting limits on the size and age of transport vehicles impairs contractors' abilities to provide the most cost effective routing system and does not allow the most economical life cycle for buses. County officials indicated that bus age limits were set for safety reasons. However, all buses that meet the school bus definition of the New York State Department of Transportation are inspected twice a year by the Department of Transportation. Therefore, regardless of the age of the buses, they must pass the same mechanical and safety requirements. We believe that further consideration of both the age and the size of transport vehicles presents an opportunity for contract cost savings.

Further, to provide for unanticipated needs, both Nassau County and Suffolk County require that transporters have 10 percent of their fleet on reserve in case of breakdowns. We spoke with a transportation expert who felt that this requirement was too restrictive and that counties should simply require contractors to take necessary steps to ensure adequate service. Stipulating the number of extra buses that must be available tends to increase contract prices.

Nassau County has already recognized that certain contract specifications contributed to higher transportation costs. In an attempt to lower costs, County officials revised some of their contract requirements and rebid contracts afer five years, rather than granting extensions. Specifically, the County has eliminated the requirements that buses be used exclusively for program transportation in Nassau County and that providers use only brand new buses. County officials also divided the County into three service areas (zones) rather than one, and bid each zone separately. We compared the County's 1996 transportation costs, as agreed to in the 1992 contract, with the transportation bids for the 1997 transportation contract. We found that the 1997 bid prices were more than 20 percent less than the previous contract prices. County and transportation management consultant officials attribute these savings to the revised contract specifications.

Similarly, Suffolk County officials recognized that certain bid specifications were contributing to higher transportation costs. In an

attempt to lower these costs, Suffolk County officials revised some of their bid specifications prior to releasing their most recent request for proposal. Specifically, the County increased the maximum allowable vehicle age from four years to five years, giving the transporters more time to amortize their equipment. County officials believe this will result in savings for transporters and, ultimately, for the County.

We commend Nassau County and Suffolk County officials for these cost reducing efforts. However, we urge them to consider other cost reducing options identified throughout this report.

Local Preference Laws

Another factor we identified that affects competition is the use of local preference laws. During our visit to Suffolk County, we found the County Legislature had enacted a local law which permitted the county to award contracts for goods and services to a bidder other than the lowest responsible bidder as long as the higher bidder maintained a principal place of business within Suffolk County or Nassau County. In addition, the higher bidder must have submitted a bid not exceeding 10 percent of the otherwise lowest bid.

We found Nassau County had a similar law. Under the authority of Nassau County's local preference law, County officials awarded the contract to a provider whose bid was 2.1 percent more than the lowest bid. This award resulted in an additional annual cost to the county of $108,708, or $543,540 over the five-year contract.

We question whether the local preference laws of Nassau County and Suffolk County promote fair and open competition as required by Section 103 of the General Municipal Law. Section 103 of the General Municipal Law states that contracts should be awarded to the lowest responsible bidder furnishing the required security after advertisement for sealed bids in the manner provided by this section. In response to our question, our Counsel's Office stated, "....it is our opinion that the local laws in question are violative of and prohibitive by section 103 of the General Municipal Law...."

To ensure that county contracting practices promote fair and open competition, Suffolk and Nassau Counties should discontinue their practice of giving preference to local transportation providers.

Operating Practices

The use of aides and the establishment of transit routes and payment methodologies are operating practices that counties can control to achieve cost savings while maintaining appropriate program service. As with contracting practices, we believe the Department should develop guidelines, in conjunction with the counties, to determine when aides should be employed, who should establish and/or review transportation routes and what payment methodologies are appropriate. Data collection and monitoring by the Department over these operating practices are also warranted.

Use of Aides to Assist Children

Aides are often needed to assist in transporting children with disabilities. County responses to our questionnaire show considerable variances in the number of aides provided and the conditions which are considered to warrant the use of aides. Twenty of the 54 counties that responded to our survey indicated that aides are provided when required by the school district, the county or the child's doctor to meet the needs of specific children. Eighteen counties responded that all vehicles transporting program children require an aide. These variances in operating practices are significant because counties that provide an aide on every bus incur more cost than counties that only provide an aide under certain conditions. In addition, as the use of aides impacts on the health and safety of children, it would appear that some standard for the use of aides would be desirable. Following is a range of conditions under which counties indicated they would pay for an aide:

Conditions Requiring an Aide	# of Counties
All Vehicles	18
Only when required by County Health, the school district, the doctor, etc.	20
Buses with more than 1 child	2
Buses with more than 4 children	2
Buses with more than 5 children	1
Buses with more than 6 children	3
Buses with more than 15 children	1
Depends on number of children	2
Did not specify conditions	2
Do not require aides	3

Establishing Routes

Our analysis of county responses to our questionnaire shows that counties vary significantly as to who establishes bus routes. Most (35) counties indicated transportation providers design the bus routes. Ten said route design was a joint effort. Six indicated county staff that oversee the program design the routes and seven said other. (Four counties gave two answers.) We believe that, at a minimum, counties should review the routes designed by the transporters to ensure cost efficiency.

We encourage the Department to provide guidance in this area because county focus on bus routes can yield savings. In addition, some counties are identifying best practices for bus routes which may be applicable to other counties. For example, Onondaga County has established a separate bus route exclusively for wheelchair bound students. This increases competition by enabling transportation companies that do not have wheelchair equipped buses to bid on the remaining routes. Further, we found some counties contract with school districts for transportation services to make routes more efficient and cost effective. In addition, some county officials work together with program providers to coordinate

program start and end times. This increases bus utilization and increases efficiency and cost effectiveness.

Payment Methodology

We found the counties varied significantly in their payment methodology for reimbursing transportation providers, as the following chart shows. (Three counties gave two answers.)

Method	# of Counties
Per trip basis for each child	23
Enrollment basis	10
Annual rate/site	1
Mileage	7
Annual Lump Sum	2
Daily Rate for the Program	1
Per route/day	2
Per day/child	4
Per vehicle	5
Per route/child	1
By site	1

We do not have a position on which method is most appropriate. However, we believe that it may be beneficial for the Department to help make counties aware of the various payment methods. Perhaps an alternative method would be more appropriate for a county's program if it can result in savings.

Suggested Practices for Counties

Work with other counties and the Department to make transportation programs for preschool children with disabilities as economical and efficient as possible. Gather and analyze the necessary information, including the material contained in this audit report, that will allow continuous improvement in transportation program operations. Among the various options available, give strong consideration to the following:

- Reviewing and comparing transportation costs and practices with other counties (or other transportation operations) to identify areas for improvement.
- Seeking advice and input from the Department on ways to make transportation programs as economical and efficient as possible.
- Ensuring an adequate level of competition is obtained for transportation related contracts.
- Avoiding contract extensions and setting contract periods that allow contractors to obtain an adequate return on their investment while affording the county sufficient competitive bidding opportunities.
- Eliminating unnecessary and costly contract requirements.
- Surveying non-bidders and other counties, when limited competition occurs, to identify and correct issues that may be causing such limited competition.
- Working with the Department in developing a statewide policy on the use of aides for the transportation of preschool children with disabilities.
- Working with transportation providers to ensure bus routes are cost efficient.
- Considering the various payment methods used by other counties in determining which method to use to pay transportation providers.

Recommendations

1. Provide leadership and guidance to counties regarding transportation practices. To do this, meet periodically with county officials and other involved parties with the goal of improving county transportation practices and, if necessary, proposing statutory and/or regulatory changes. Such meetings should result in:

   a. Written material that would define conditions and/or rules that must be followed in order to claim transportation aid for this program (e.g., rebidding at the end of the contract period, discouraging such practices as restrictive specifications, and use of aides);

   Auditors' Comment: We wish to clarify that the intent of our recommendation is not to foreclose the use of aides. Rather, our intent is to assure standards are established to govern the use of aides.

   b. A best practices document related to transporting preschool students including cost saving techniques, innovative practices, etc.; and

   c. Periodic reviews of new or innovative practices in transporting preschool students including cost savings measures.

2. Based on workload risk assessments, allocate some efforts to reviewing the cost differentials between counties for transportation services and determine the reasons, if possible, for such differentials.

3. Based on workload risk assessments, allocate some efforts to the performance of a transportation claims review auditing process on a random or exception basis.

4. Advise counties that local preference laws may tend to limit competition and could be contrary to the General Municipal Law.

   (Department officials concur with recommendations 1 through 4. Officials respond that over the next twelve months a workgroup of Department and municipality staff will evaluate preschool transportation expenses. The Department also plans to assess whether there are resources to review cost differentials between municipalities and to audit, on an exception basis, municipality transportation claims.)

State Aid and Related Issues

Our audit found that the Department needed to address certain problems related to setting rates for reimbursing transportation costs, collecting program data from the counties, and distinguishing administrative costs from direct transportation costs for State aid claiming.

Rate Setting Responsibilities

The Education Law requires that, beginning in school year 1997-98, the Commissioner establish regional ceiling rates for county reimbursement of preschool handicapped transportation expenses. The Department is using historical cost data submitted by counties to establish the ceiling rates. However, we have shown that some county practices may have been inefficient and some costs submitted were inaccurate. Therefore, there is a risk that established ceiling rates will result in unnecessarily high reimbursements because rates may reflect inefficient practices which inflate costs. The Department should design and follow procedures to ensure that established regional ceiling rates compensate for this risk. For example, Department officials might review county claims to determine whether county transportation costs are accurate, reasonable and necessary. This can be accomplished by gathering the types of data and performing tests and analyses similar to those we did during this audit, as well as during the audit of Putnam County's transportation expenses (Report 97-S-69).

Administrative Costs

In addition to direct transportation costs reimbursed at a 59.5 percent rate, the Education Law provides for annual reimbursement in the amount of $50 per preschool child served to municipalities for administrative costs incurred. However, the law does not explain what is considered a transportation cost and what is considered an administrative cost.

Several counties, including Nassau, Oneida, Orange, Suffolk and Rockland, hire transportation management consultants to oversee their transportation programs. We found that Nassau County and Suffolk County include management consultant costs as transportation costs on their claims for 59.5 percent reimbursement from the Department. However, when we reviewed the types of services the consultants provided, those services seemed generally administrative in nature.

For example, Nassau County contracts with a consultant to, among other things, perform purchasing functions, including developing requests for proposals (RFPs) for transportation services, advertising RFPs nationally,

conducting pre-bid conferences and evaluating proposals received. The consultant is also required to monitor contractor compliance, review and certify the accuracy of contractor invoices, and handle transportation complaints. For the two school years ended June 30, 1996, this service cost Nassau County $808,223.

Suffolk County contracts with a consultant to, among other things, provide purchasing and finance related functions. The consultant is required to ensure transportation contractor compliance with applicable regulations, maintain computer files on drivers and driver assistants; and conduct site visits to inspect provider vehicles, drivers and safety practices. Further, the consultant is required to process transportation change orders, handle transportation complaints, maintain a computerized incident/accident system and establish monthly per child transportation costs. For the two school years ended June 30, 1996, this service cost Suffolk County $896,337.

Since county reimbursement is capped at $50 per child per year to cover administrative costs and is reimbursed without limit for direct costs at a 59.5 percent rate, we believe the Department must provide guidelines to counties defining allowable transportation costs and appropriate administrative costs.

Reporting System

The System to Track and Account for Children (STAC) is a Department database used to collect demographic, enrollment and fiscal data for various programs including the preschool program for students with disabilities. The Department uses STAC to determine a child's eligibility for a program, and to account for related costs for each child. This child specific system requires that the county submit budgeted and actual program costs, along with other data, for each child. At any point in time at least three school years are open in STAC, whereby counties may submit claims for reimbursement. Counties are allowed to begin submitting costs for a specific school year nine months after the school year begins. At that point and every two months hence, for every open school year, the Department mails each county a hard copy computer list of all county children in the program. To calculate a cost per child, the counties use various labor intensive systems to allocate the aggregate transportation contractor bills. Counties then manually enter the various costs incurred providing services to each child, including a separate entry for transportation, and mail the computer printout back to the Department.

A Department employee manually data enters each amount the county noted. STAC then aggregates the costs submitted and the county is reimbursed 59.5 percent of transportation costs. Department officials acknowledge they use the child specific transportation costs to determine the total amount to reimburse the county. They do not use the per child transportation cost for any other purpose. The Department should reconsider the value of requiring the counties to provide child specific transportation costs for the Preschool program, and instead, consider require documentation to support actual transportation costs incurred. Department officials pointed out that this will require a change in statute.

The Department's data collection process using STAC is extremely labor intensive and costly for the counties and the State considering that in school year 1994-95 there were 51,237 children in the program statewide. Department officials recognize the current system is costly and indicated they are developing an electronic processing system to replace the manual STAC system. Their plan is for the process to be available to the counties sometime during the 1998-99 school year. Department officials also indicated that with additional hardware and software, they will be able to offer electronic processing via the Internet.

We found the Department of Health (DOH), which administers the Early Intervention Program (EIP), has an electronic system that allows counties to use personal computers to submit information similar to that contained on STAC. This allows counties to submit the necessary program data (e.g., demographic and cost data) in a more efficient manner than the manual system used for the Preschool program. Nevertheless, county officials are burdened with two separate and distinct reporting systems, one for EIP and one for the Preschool programs.

Usually, both EIP and Preschool children ride the same buses to the same programs, and the counties must allocate costs between the programs. We believe that one reporting system may satisfy the needs for both programs. Department officials indicated their intention is to develop a paperless system operating through the Internet, which is different than DOH's system. We encourage Department officials to determine if a joint effort with DOH would be beneficial for all parties involved and to move as quickly as is reasonably possible to develop an appropriate system.

Recommendations

5. Ensure that established regional transportation ceiling rates reimburse reasonable costs and do not reward inefficiencies.

6. Provide guidelines to counties for allowable transportation costs and appropriate administrative costs.

   (Department officials concur with recommendations 5 and 6.)

7. Study alternatives to the requirement that counties currently have to track and submit child specific transportation costs and propose stationary changes as necessary.

   (Department officials state that they plan to study this recommendation in the course of implementing the other recommendations that we make.)

8. Determine if it would be beneficial to State taxpayers, counties, DOH and the Department, to jointly develop an electronic reporting system for both the Preschool and Early Intervention Programs.

9. Move as quickly as is reasonably possible to develop the electronic processing system to make the Preschool Handicapped Transportation Aid process quicker and more efficient.

   (Department officials concur with recommendations 8 and 9. Regarding recommendation 8, officials indicate that when they previously examined the Health Department's reporting system, they concluded that there were material differences that made the migration to one system not feasible. They further noted that postponing development of the Department's paperless system for the purpose of starting a new combined system would be an inefficient use of scarce technology resources.)

   Auditors' Comment: We urge the Department to consider that developing and maintaining two separate systems for the Preschool and the Early Intervention Program may be an even more inefficient use of technology resources from a statewide perspective.

EXHIBIT A

Costs For Center-Based Facilities
Regular School Session (September 1994 - June 1995)
(As of April 7, 1998)

County Name	Total Costs	Program Costs	Transportation Costs	Number of Students	Transportation Cost Per Student
ALBANY	$7,334,604	$5,990,956	$1,343,648	516	$2,604
ALLEGHENY	$1,163,527	$991,241	$172,287	101	$1,706
BROOME	$1,682,755	$1,271,340	$411,415	179	$2,298
CATTARAUGUS	$2,280,741	$1,898,286	$382,455	175	$2,185
CAYUGA	$828,793	$607,320	$221,473	96	$2,307
CHAUTAUQUA	$2,508,315	$2,180,873	$327,441	211	$1,552
CHEMUNG	$791,774	$583,459	$208,315	90	$2,315
CHENANGO	$362,273	$244,628	$117,645	32	$3,676
CLINTON	$1,340,540	$1,146,384	$194,156	87	$2,232
COLUMBIA	$1,873,772	$1,580,504	$293,268	116	$2,528
CORTLAND	$788,101	$666,533	$121,568	55	$2,210
DELAWARE	$474,713	$280,922	$193,792	38	$5,100
DUTCHESS	$6,950,960	$4,975,147	$1,975,813	417	$4,738
ERIE	$15,107,676	$11,445,013	$3,662,662	1,307	$2,802
ESSEX	$645,965	$456,326	$189,639	41	$4,625
FRANKLIN	$1,337,741	$893,345	$444,396	70	$6,349
FULTON	$1,537,356	$1,142,682	$394,674	120	$3,289
GENESEE	$2,420,150	$1,894,536	$525,614	274	$1,918
GREENE	$1,029,346	$810,462	$218,884	85	$2,575
HAMILTON	$11,342	$6,302	$5,040	1	$5,040
HERKIMER	$988,684	$717,577	$271,107	68	$3,987
JEFFERSON	$1,195,646	$881,004	$314,643	116	$2,712
LEWIS	$418,816	$369,629	$49,187	28	$1,757
LIVINGSTON	$869,161	$623,680	$245,480	84	$2,922
MADISON	$557,485	$415,777	$141,708	43	$3,296
MONROE	$12,927,087	$9,750,508	$3,176,580	1,139	$2,789
MONTGOMERY	$1,453,257	$1,105,264	$347,993	121	$2,876
NASSAU	$38,819,944	$30,176,161	$8,643,783	1,617	$5,346
NEW YORK CITY	$225,118,039	$175,137,867	$49,980,172	11,676	$4,281
NIAGARA	$4,187,970	$3,402,340	$785,630	378	$2,078
ONEIDA	$4,329,017	$3,215,899	$1,113,118	355	$3,136
ONONDAGA	$9,714,643	$8,353,421	$1,361,222	624	$2,181
ONTARIO	$1,880,521	$1,558,467	$322,054	137	$2,351
ORANGE	$7,267,763	$5,309,132	$1,958,631	463	$4,230
ORLEANS	$940,321	$728,710	$211,611	85	$2,490
OSWEGO	$3,021,884	$2,219,974	$801,909	236	$3,398
OTSEGO	$128,587	$101,505	$27,082	13	$2,083
PUTNAM *	$2,217,829	$1,582,109	$635,720	107	$5,941
RENSSELAER	$4,419,271	$3,865,591	$553,680	252	$2,197

EXHIBIT A

Costs For Center-Based Facilities
Regular School Session (September 1994 - June 1995)
(As of April 7, 1998)

County Name	Total Costs	Program Costs	Transportation Costs	Number of Students	Transportation Cost Per Student
ROCKLAND	$8,840,223	$6,118,218	$2,722,005	512	$5,316
ST. LAWRENCE	$1,180,996	$634,368	$546,628	91	$6,007
SARATOGA	$3,576,790	$2,834,638	$742,152	260	$2,854
SCHENECTADY	$3,449,123	$2,651,182	$797,941	254	$3,141
SCHOHARIE	$902,100	$770,264	$131,836	67	$1,968
SCHUYLER	$196,318	$144,751	$51,568	20	$2,578
SENECA	$342,950	$312,028	$30,923	36	$859
STEUBEN	$1,758,705	$1,449,390	$309,316	151	$2,048
SUFFOLK	$66,564,520	$52,201,108	$14,363,412	3,770	$3,810
SULLIVAN	$2,719,132	$2,066,529	$652,603	143	$4,564
TIOGA	$560,657	$433,968	$126,689	52	$2,436
TOMPKINS	$1,436,176	$1,155,706	$280,470	86	$3,261
ULSTER	$4,919,548	$4,060,856	$858,693	288	$2,982
WARREN	$1,436,520	$1,131,046	$305,474	83	$3,680
WASHINGTON	$973,240	$827,348	$145,892	93	$1,569
WAYNE	$2,663,194	$2,181,008	$482,185	176	$2,740
WESTCHESTER	$16,920,254	$13,269,908	$3,650,346	1,055	$3,460
WYOMING	$733,818	$545,940	$187,878	73	$2,574
YATES	$521,905	$440,160	$81,745	32	$2,555
TOTAL	$490,622,542	$381,809,291	$108,813,251	28,795	$3,779

* Per audit 97-S-69

Major Contributors to This Report

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Appendix A

THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

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December 17, 1998

Mr. Jerry Barber
Audit Director
State of New York
Office of the State Comptroller
A.E. Smith State Office Building
Albany, NY 12236

Dear Mr. Barber:

I am responding to your letter to Chancellor Hayden of November 20, 1998 transmitting the State Comptroller's draft audit report (97-S-52) on the economy and efficiency of transportation services for preschool students with disabilities. We have reviewed the recommendations contained in the draft audit report and our comments are contained herein.

Recommendations 1 through 4 - County Practices and Department Oversight

1. ***Provide leadership and guidance to counties regarding transportation practices. To do this, meet periodically with county officials and other involved parties with the goal of improving county transportation practices and, if necessary, proposing statutory and/or regulatory changes. Such meetings should result in:***

   a. ***Written material that would define conditions and/or rules that must be followed in order to claim transportation aid for this program (e.g., rebidding at the end of the contract period, discouraging such practices as restrictive specifications, and use of aides);***

   b. ***A best practices document related to transporting preschool students including cost saving techniques, innovative practices, etc; and***

   c. ***Periodic reviews of new or innovative practices in transporting preschool students including cost savings measures.***

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2. ***Based on workload risk assessments, allocate some efforts to reviewing the cost differentials between counties for transportation services and determine the reasons, if possible, for such differentials.***

3. ***Based on workload risk assessments, allocate some efforts to the performance of a transportation claims review auditing process on a random or exception basis.***

4. ***Advise counties that local preference laws may tend to limit competition and could be contrary to the General Municipal Law.***

Response 1. through 4.:

We agree with recommendations 1 through 4. Over the course of the next twelve months, the Department will arrange for a workgroup made up of municipality and Department staff to evaluate preschool transportation practices. We also intend, over the same period, to assess whether there are resources available to review cost differentials between municipalities and to audit, on an exception basis, municipality transportation claims.

Recommendations 5. through 9.:

5. ***Ensure that established regional transportation ceiling rates reimburse reasonable costs and do not reward inefficiencies.***

6. ***Provide guidelines to counties for allowable transportation costs and appropriate administrative costs.***

7. ***Propose statutory changes, as necessary, to stop requiring counties to track and submit child specific transportation costs.***

8. ***Determine if it would be beneficial to State taxpayers, counties, DOH and the Department, to jointly develop an electronic reporting system for both the Preschool and Early Intervention Programs.***

9. ***Move as quickly as is reasonably possible to develop the electronic processing system to make the Preschool Handicapped Transportation Aid process quicker and more efficient.***

* Note

Responses:

We agree with recommendations 5 through 9. We believe that recommendations 5 and 6 are closely related to recommendation 1.a and would be reviewed at the same time. Recommendation 7 will be studied through the course of implementing the other recommendations contained in this report. Recommendation 9 regarding the conversion

* See State Comptroller's Note, Appendix B-3

of the STAC system to one that is paperless is being worked on at this time. We are very committed to seeing this become a reality as soon as possible. Regarding recommendation 8, while we will again review the components of the Health Department's reporting system, when we looked at it prior to beginning our work on making STAC paperless, it was determined that there were material differences that made the migration to one system not feasible. It should be noted that to postpone any further development of a paperless STAC system for the purpose of starting over on a new combined system would be an inefficient use of scarce Information and Technology resources.

If you have any questions, please call Thomas Hamel at (518) 486-2991.

Sincerely,

Richard H. Cate

cc: Thomas Hamel

State Comptroller's Note

Recommendation Number 7 from the draft report has been reworded in the preparation of this final report.